



Office of Governmental Affairs
P.O. Box 942720
Sacramento, CA 94229-2720
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3689, FAX (916) 795-3270

June 19, 2006

AGENDA ITEM 10-C

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Senate Concurrent Resolution 117 (Soto) –
As Introduced

Reverse Annuity Mortgage Program Study

Sponsor: *PERS Public Agency Coalition*

- II. **PROGRAM:** Legislation

- III. **RECOMMENDATION:** Support

SCR 117 would direct staff to perform a study to determine if it is feasible to develop a Reverse Annuity Mortgage program for retired members and report back to the Legislature.

IV. **ANALYSIS:**

This resolution would direct CalPERS to study and consider development of a Reverse Annuity Mortgage (RAM) program for retired members and to report the findings to the Legislature on or before January 15, 2007.

Background

CalPERS Member Home Loan Program

The CalPERS Member Home Loan Program (MHLP) was created in 1981 by AB 1342 (Elder), Chapter 410. This bill established a home loan program to help CalPERS' members obtain purchase-money or refinance loans. The MHLP statute specifies that the criteria and terms for its loans shall provide the greatest benefit to members consistent with the financial integrity of the program and the sound investment of the retirement fund.

Members were limited to 95 percent financing when the Legislature established the "Secured Personal Loan Programs" in 1989. Under this program, the member was able to obtain one loan with a loan-to-value ratio not to exceed 95 percent, secured by the property, and a second personal loan with a loan-to-value ratio not to exceed

5 percent, secured by a portion of the accumulated contributions and vested accrued benefits in the member's individual CalPERS retirement account.

The fact that member contributions were serving as collateral on the second loans caused concerns at CalPERS. This helped to serve as a catalyst for the 2003 amendment which now provides for 100 percent financing for the first loan for a single-family dwelling, single-family cooperative apartment, or single-family condominium, secured by the property itself, and not the member's accumulated contributions and vested accrued benefits.

Since the inception of the program, over 125,000 loans have been originated, exceeding \$20 billion in volume. Financing is available to eligible members nationwide. The vast majority of real estate loans originated under the MHLP, however, are secured by one-to-four unit (primarily single-family) residences located within California. All homes secured by loans originated under the program are owner-occupied. Investment property financing is not allowed under the MHLP.

Through a contract with CalPERS, CitiMortgage serves as mortgage loan master servicer and manager of the CalPERS MHLP. Citimortgage has general administrative and supervisory responsibility of the program and provides uniform reports and services to CalPERS.

Reverse Annuity Mortgages

A Reverse Annuity Mortgage (RAM) is a loan against a member's home that does not have to be repaid as long as the member lives there. With a RAM, a member can turn a portion of the value of their home into cash without having to move or make monthly loan payments. In a typical RAM, the member has the option to receive the loan as a lump sum, as a regular monthly cash advance, as a credit line account, or a combination of these payment methods.

No matter how the RAM is disbursed, the loan generally does not have to be repaid until the last surviving borrower dies, sells the home, or permanently moves out of the home. To be eligible for most RAMs, a member must own their own home and be 62 years of age or older.

CalPERS Investment Committee approved RAM guidelines at its November 7, 1984 Committee meeting. Subsequently, the MHLP offered RAM loans to members over the age of 62. A condition of this loan, however, was the member was required to receive financial counseling prior to obtaining a RAM loan. The RAM program was discontinued due to lack of participation.

Proposed Changes

The resolution would direct CalPERS to study and consider development of a RAM program for retired members of the system, and to report the findings to the Legislature on or before January 15, 2007.

Legislative History

- 2003 Chapter 97 (AB 475, Correa) – Provided authority for the board to enable members to obtain 100 percent financing for the first loan for a single-family dwelling, single-family cooperative apartment, or single-family condominium. *CalPERS' Position: Sponsor*
- 1989 Chapter 355 (AB 46, Elder) – Allowed active CalPERS members and annuitants to obtain a secured loan using their retirement contributions as collateral for the down payment on a home not to exceed 5 percent. *CalPERS' Position: Sponsor*
- 1980 Chapter 410 (AB 1342, Elder) – Established the CalPERS Member Home Loan Program which allowed CalPERS to utilize the Public Employees' Retirement Fund to make home loans available to CalPERS members and annuitants. *CalPERS' Position: Oppose*

Issues

1. Arguments in Support

The sponsor cites that escalating health care costs, coupled with the fact that retirees who are on a fixed income are finding that their living expenses are exceeding inflation, may cause retirees to look for alternate sources of income.

Since RAMS provide an opportunity to convert an individual's home into an additional source of income, they may be a reliable alternative for retirees to assist in paying for their health care needs.

Organizations in Support: PERS Public Agency Coalition.

2. Arguments in Opposition

There is currently no known opposition.

3. Legislative Policy Standards

The Board's Legislative Policy Standards indicate a support position for proposals which provide benefits to retirees to recognize the unique needs of the group. SCR 117 would direct staff to perform a study to determine if it is feasible to develop a RAM program for retired members that is consistent with CalPERS' investment goals and provides such retirees with an alternative source of income.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

This resolution would direct CalPERS to study and consider development of a reverse annuity mortgage program for retired members.

Program Costs

SCR 117 does not impact program costs.

Administrative Costs

SCR 117 does not have a significant impact to CalPERS administrative costs and the study can be absorbed into staff's daily workload.

Lisa Marie Hammond, Chief
Office of Governmental Affairs

Jarvio Grevious
Deputy Executive Officer
Benefits Administration

Russell Read
Chief Investment Officer
Investment Office